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THE SHERMAN ANTI-TRUST ACT AND THE PATENT LAW*

By Gilbert H. Montague, of the New York Bar.

"Formerly in England," wrote Mr. Justice Story in 1839,¹ "courts of law were disposed to indulge in a very close and strict construction of the specifications accompanying patents and expressing the nature and extent of the invention. This construction seems to have been adopted upon the notion that patent rights were in the nature of monopolies, and, therefore, were to be narrowly watched and construed with a rigid adherence to their terms, as being in derogation of the general rights of the community." The reasons for this English view, which have been admirably set forth in a brilliant historical chapter by Professor Robinson,² go back to the Elizabethan struggle against monopoly and the famous Statute against Monopolies (21 Jac., 1 Ch. 3, A. D., 1623) which in sweeping terms abolished all monopolies, and denied the power of the crown to grant them in the future, except only in cases where such grants had been or

* EDITORS NOTES—The decision of the Supreme Court in *Henry v. A. B. Dick Co.* was announced March 11, 1912, while this article was in press. It has not yet been officially reported, but the unofficial reports indicate that the majority opinion bears out all the points made by Mr. Montague in this article. In view of the great public interest aroused by the decision, it will be discussed in an article by Mr. Montague in a future issue of the YALE LAW JOURNAL.

¹ *Blanchard v. Sprague*, 3 Sumner, 535, 539.

² Robinson: *Patents*, Introduction, Chapter II, Section 11-44.

should be made to the inventors of new manufactures, conferring upon them the exclusive privilege of practising such inventions for a limited period of time.

These reasons, and the causes out of which they naturally had grown in England, need not here detain us. In America these causes have never existed, and these reasons for jealousy of the inventor's privilege were never manifest. When the Constitution was adopted, the subject was approached in the spirit of the utmost liberality to the inventor. Article I, Section 8, Subdivision 8, provides that Congress shall have power "to promote the progress of science and useful arts by securing, for limited times, to authors and inventors the exclusive right to their respective writings and discoveries." Contemporary records of the debates in the Constitutional Convention and of the great popular discussion which preceded the adoption of the Constitution by the several states show that to this clause of the Constitution was accorded the almost unique distinction of universal approval.

Mr. Justice Story, therefore, was well within the mark, when he wrote, in continuation of his opinion above quoted: "At present, a far more liberal and expanded view of the subject is taken. Patents for inventions are now treated as a just reward to ingenious men, and as highly beneficial to the public, not only by holding out suitable encouragements to genius and talents and enterprise, but as ultimately securing to the whole community great advantages from the free communication of secrets and processes and machinery, which may be most important to all the great interests of society—to agriculture, to commerce, and to manufactures, as well as to the cause of science and art. In America this liberal view of the subject has always been taken, and indeed it is a natural, if not a necessary result from the very language and intent of the power given to Congress, by the Constitution on this subject." From the historical point of view, at any rate, Professor Robinson's conclusion³ is sound that

"the nature of the patent privilege, as thus disclosed by its effects on the relations of the inventor and the public toward the invention, proves that it possesses both the characteristics of a true monopoly; (1) It confers on the inventor an exclusive right to which he is not naturally entitled, and which he could neither claim nor enforce except through the arbitrary interposition of the law; (2) It restricts the public in its enjoyment of three inval-

³ Robinson: *Patents*, Section 32.

uable rights, without the exercise of which, in some form, all progress in the industrial arts would be impossible. It differs from an odious monopoly in this: that in the odious monopoly the public are deprived of some existing method of enjoying these rights, while the patent privilege prevents their exercise only in the new direction marked out by the discovery of the inventor. But in both cases the rights restricted are the same, and the effect on their enjoyment after the monopoly is granted is identical. That a patent privilege is a true monopoly, derogatory to common right, is, therefore, the correct theory concerning it, considered in itself."

Somewhat more than a hundred years after this monopolistic privilege had been secured to inventors by the Constitution, the Sherman Anti-Trust Act was passed. Section I of this act provided in part as follows: "Every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce, among the several states or with foreign nations, is hereby declared to be illegal." Section 2 provided in part as follows: "Every person who shall monopolize, or attempt to monopolize, any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a misdemeanor * * *."

Instead of resting, like the patent laws, upon an express definite provision of the Constitution, the Sherman Act rested upon an implication from that indefinite provision of the Constitution which authorized Congress "to regulate commerce with foreign nations and among the several states." Indeed, the history of the bill before its passage shows that its sponsors experienced no little difficulty in discovering sufficient constitutional basis on which to construct the statute.⁴

How far this statute, of comparatively recent date, affects or controls the monopolistic privileges secured, since the birth of the republic, to inventors by patent laws enacted pursuant to the express provisions of the Constitution, is the subject which will be discussed in this paper.

II.

Prominent in the development of the law on this subject is the many sided litigation relating to the patents of the National Har-

⁴ *Congressional Record*, Vol. 19, p. 7513; Vol. 20, pp. 1167-1169; Vol. 21, pp. 1460, 1770, 2460-2467, 2607-2608, 2567-2568, 2657. See also Prentice: *Federal Power Over Carriers and Corporations*, 161-168.

row Company, which eventually culminated in *Bement v. National Harrow Company*.⁵ In this case, the National Harrow Company sued Bement to recover damages arising out of a violation by Bement of certain contracts executed between the parties relating to the manufacture and sale of spring tooth harrows, to restrain future violation of such contracts, and to compel specific performance by Bement. Judgment for the plaintiff was affirmed by the Court of Appeals of New York, and the case was brought to the Supreme Court by writ of error and was there affirmed. The only federal question raised was as to the validity of the contracts with regard to the Sherman Act. Justice Peckham, writing the opinion of the Court, said that "the first important and most material fact in considering this question is that the agreements concern articles protected by letters patent of the Government of the United States." The plaintiff, continued Judge Peckham, "was, therefore, the owner of a monopoly recognized by the Constitution and by the statutes of Congress. An owner of a patent has the right to sell it or to keep it; to manufacture the article himself or to license others to manufacture it; to sell such article himself or to authorize others to sell it."

He quoted with approval *Heaton-Peninsular Company v. Eureka Specialty Co.*,⁶ as follows:

"If he sees fit, he may reserve to himself the exclusive use of his invention or discovery. If he will neither use his device nor permit others to use it, he has but suppressed his own. That the grant is made upon the reasonable expectation that he will either put his invention to practical use or permit others to avail themselves of it upon reasonable terms is doubtless true. This expectation is based alone upon the supposition that the patentee's interest will induce him to use, or let others use, his invention. The public has retained no other security to enforce such expectations. His title is exclusive, and so clearly within the constitutional provisions in respect to private property that he is neither bound to use his discovery himself nor permit others to use it."

Justice Peckham then mentioned two exceptions to this rule of absolute freedom in the use or sale of patented privileges; namely, the exercise of the police power of the state, as for instance in condemning an improvement for burning oil as unsafe for illuminating purposes under the statute,⁷ and the invalidity of agree-

⁵ 186 U. S., 70, 1902.

⁶ 77 Fed., 288, C. C. A. 6th C., 1896.

⁷ *Patterson v. Kentucky*, 97 U. S., 501.

ments which forbade telephone licensees operating public telephone lines to serve other telephone companies within their districts.⁸ Justice Peckham then continued:

"Notwithstanding these exceptions, the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States. The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the license for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

Justice Peckham stated that the contracts in question included interstate commerce within their provisions and then came back to the question "whether the agreement between these parties with relation to these patented articles is valid within the act of Congress." He referred to the rule, established in *United States v. Trans-Missouri Freight Association*,⁹ *United States v. Joint Traffic Association*,¹⁰ and *Addystone Pipe, Etc., Co. v. United States*,¹¹ to the effect that "the act included any restraint of commerce, whether reasonable or unreasonable," and added:

"But that statute clearly does not refer to that kind of a restraint of interstate commerce which may arise from reasonable and legal conditions imposed upon the assignee or licensee of a patent by the owner thereof, restricting the terms upon which the article may be used and the price to be demanded therefor. Such a construction of the act we have no doubt was never contemplated by its framers."

Justice Peckham then examined the various provisions of the agreement, and held that none of them constituted a violation of the Sherman Act. The provision in regard to the price at which the licensee would sell the article manufactured under the license, he stated,

"tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the

⁸ *Missouri ex rel, etc., v. Bell Telephone Co.*, 23 Fed., 539, and other cases collected in 186 U. S., 70, 90-91.

⁹ 166 U. S., 290.

¹⁰ 171 U. S., 505.

¹¹ 175 U. S., 211.

owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

Similarly, Justice Peckham held that the provision by which the defendant agreed not to manufacture or sell any spring tooth harrow manufactured under patents other than those which it had assigned to the plaintiff or which the plaintiff licensed the defendant to use, and the provision by which the plaintiff agreed not to license any person other than this defendant to manufacture or sell any harrow of the style then used or sold by this defendant, were both proper and valid and in conformity with the Sherman Act.

Alongside the discussion by the Supreme Court in *Bement v. National Harrow Company* of the principles relating to patent rights may be grouped three propositions laid down in three lines of cases as follows:

First: *The fact that the owner of a patent is a combination, or a party to a combination, formed or existing for the purpose of monopolizing patents of the same general character, will not avail an infringer of such patent, who is not a licensee or party to such combination, as a defense to a suit for infringement brought by the owner of such patent. Similarly, the fact that the owner of a patent is a combination, or a party to a combination, formed or existing in violation of the Sherman Act, will not avail an infringer of such patent, who is not a licensee or party to such combination, as a defense to a suit for infringement brought by the owner of such patent.*¹²

¹² *Strait v. National Harrow Company*, 51 Fed., 819 (C. C. N. D., New York, 1892.)

Edison Electric Light Co. v. Sawyer-Mann Electric Co., 53 Fed., 592 (C. C. A. 2nd C., 1892).

American Soda Fountain Co. v. Green, 69 Fed., 333 (C. C. E. D., Pennsylvania, 1895).

Bonsack Machine Co. v. Smith, 70 Fed., 383 (C. C. W. D., North Carolina, 1895).

Columbia Wire Company v. Freeman Wire Company, 71 Fed., 302 (C. C. E. D., Missouri, 1895).

Brown Saddle Co. v. Troxel, 93 Fed., 620 (C. C. N. D., Ohio, 1899).

National Folding Box and Paper Co. vs. Robertson, 99 Fed., 985 (C. C. D., Connecticut, 1900).

Lafayette Bridge Co. v. Streator, 105 Fed., 729 (C. C. N. D., Illinois, 1900).

Otis Elevator Co. v. Geiger, 107 Fed., 131 (C. C., Kentucky, 1901).

Second: *The owner of a patent may impose restrictions upon the use of the patent and the manufacture and sale of the patented articles by the licensee, and such restrictions, if part of an express agreement between the owner and such licensee, may be enforced by the owner against such licensee.*¹³

General Electric Co. v. Wise, 119 Fed., 922 (C. C. N. D., New York, 1903).

Fuller v. Berger, 120 Fed., 274 (C. C. A., 7th C., 1903); Certiorari denied, 193 U. S., 668 (1904).

Cilley v. United Shoe Machinery Co., 152 Fed., 726 (C. C. D., Massachusetts, 1907).

Jones-Pratt Co. v. Sachs Co., 176 Fed., 738 (C. C. D., Connecticut, 1910).

Motion Picture Patents Co. v. Laemlle, 178 Fed., 104 (C. C. S. D., New York, 1910).

Virtue v. Creamery Package Mfg. Co., 179 Fed., 115 (C. C. A., 8th C., 1910).

Motion Picture Patents Co. v. Ullman, 186 Fed., 174 (C. C. S. D., New York, 1910).

Contra:

National Harrow Co. v. Quick, 67 Fed., 130 (C. C. D., Indiana, 1895). Affirmed, 74 Fed., 236 (C. C. A., 7th C., 1896).

Compare also:

National Harrow Co. v. Hensch, 76 Fed., 667 (C. C. E. D., Pennsylvania, 1896). Affirmed, 83 Fed., 36 (C. C. A., 3rd C., 1897).

¹³ *Tubular Rivet & Stud Co. v. O'Brien*, 93 Fed., 200 (C. C. D., Massachusetts, 1898).

U. S. Consolidated Seeded Raisin Co. v. Griffin & Skelley Co., 126 Fed., 364 (C. C. A., 9th C., 1903).

National Phonograph Co. v. Schlegel, 128 Fed., 733 (C. C. A., 8th C., 1904).

Rupp & Wittgenfeld Co. v. Elliott, 131 Fed., 730 (C. C. A., 6th C., 1904).

Indiana Manufacturing Co. v. J. I. Case Threshing Machine Co., 154 Fed., 365 (C. C. A., 7th C., 1907). Appeal dismissed, 207 U. S., 603 (1907).

Rubber Tire Vehicle Co. v. Milwaukee Rubber Works Co., 154 Fed., 358 (C. C. A., 7th C., 1907).

Consolidated Rubber Tire Co. v. Diamond Rubber Co., 157 Fed., 677 (C. C. A., 2nd C., 1907).

Goshen Rubber Works v. Single Tube A. & B. Tire Co., 166 Fed., 431 (C. C. A., 7th C., 1908).

Fonotipia Limited v. Bradley, and Victor Talking Machine Co. v. Bradley, 171 Fed., 951 (C. C. E. D., New York, 1909).

Indiana Mfg. Co. v. Nichols & Shepard Co., 190 Fed., 579 (C. C. E. D., Michigan, 1911).

Crown Cork & Seal Co. v. Standard Brewery, 174 Fed., 252 (C. C. N. D., Illinois, 1909).

Third: *The owner of a patent may impose restrictions upon the use and re-sale of the patented article by the party to whom such article is sold, and such restrictions, if made known to such party, may be enforced against such party by the owner of the patent, even though no express agreement exists between them.*¹⁴

See also:

National Phonograph Co. of Australia v. Menck, 104 L. T. Rep. 5, Privy Council, Feb. 3, 1911.

Incandescent Gas Light Co. v. Cantelo, 12 Pat. Cas., 262 (1895).

Incandescent Gas Light Co. v. Brogden, 16 Pat. Cas., 179.

British Mutoscope & Biograph Co., Limited, v. Homer, 84 L. T., 26 (1901), 1 Ch., 671.

Badische Anilin, etc., v. Isler, (1906), 1 Ch., 611.

McGruther v. Pitcher, 91 L. T. Rep., 678 (1904), 2 Ch., 306.

Contra:

National Harrow Co. v. Hench, 76 Fed., 667 (C. C. E. D., Pennsylvania, 1896). Affirmed, 83 Fed., 36 (C. C. A., 3rd C., 1897).

Blount Manufacturing Co. v. Yale & Towne Manufacturing Co., 166 Fed., 555 (C. C. D., Mass., 1909).

¹⁴ *Henry v. A. B. Dick Co.*, U. S. Supreme Court, March 11, 1912, (not yet reported).

Dickerson v. Matheson, 57 Fed., 524 (C. C. A., 2nd C., 1893).

Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co., 77 Fed., 288 (C. C. A., 6th C., 1896).

Dickerson v. Tinling, 84 Fed., 192, (C. C. A., 8th C., 1897).

Edison Phonograph Co. v. Kaufman, 105 Fed. 960 (C. C. W. D., Pennsylvania, 1901).

Cortelyou v. Lowe, 111 Fed., 1005 (C. C. A., 2nd C., 1901).

Cortelyou v. Lowe, 114 Fed., 1021 (C. C. S. D., New York, 1902).

Edison Phonograph Co. v. Pike, 116 Fed., 863 (C. C. D., Massachusetts, 1902).

Cortelyou v. Carters Ink Co., 118 Fed., 1022 (C. C. S. D., New York, 1902).

Victor Talking Machine Co. v. The Fair, 123 Fed., 424 (C. C. A., 7th C., 1903).

Brodrick Copygraph Co. of New Jersey v. Roper, 124 Fed., 1019 (C. C. D. R. I., 1903).

Brodrick Copyright Co. v. Mayhew, 131 Fed., 92 (C. C. E. D., Wisconsin, 1902).

Mayhew v. Brodrick Copygraph Co. of New Jersey, 137 Fed., 596 (C. C. A., 7th C., 1905).

A. B. Dick Co. v. Henry, 149 Fed., 424 (C. C. S. D., New York, 1907).

Aeolian Co. v. Juelg Co., 155 Fed., 119 (C. C. A., 2nd C.).

New Jersey Patent Co. v. Schaeffer, 159 Fed., 171 (C. C. E. D., Pennsylvania, 1908). Affirmed, 178 Fed., 276 (C. C. A., 3rd C., 1909). See also *Same v. Same*, 144 Fed., 437 (1906), and *Same v. Weinburg*, 183 Fed., 588 both in C. C. E. D., Pennsylvania); *Same v. Martin*, 172 Fed., 760 (C. C. N. D., Iowa, 1909).

The discussion of the principles laid down in *Bement v. National Harrow Company* can best be approached through a discussion of the three propositions last mentioned.

III.

First: *The fact that the owner of a patent is a combination, or a party to a combination, formed or existing for the purpose of monopolizing patents of the same general character, will not avail an infringer of such patent, who is not a licensee or party to such combination, as a defense to a suit for infringement brought by the owner of such patent. Similarly, the fact that the owner of a patent is a combination, or a party to a combination, formed or existing in violation of the Sherman Act, will not avail an infringer of such patent, who is not a licensee or party to such combination, as a defense to a suit for infringement brought by the owner of such patent.*

Automatic Pencil Sharpener Co. v. Goldsmith Bros., 190 Fed., 205 (C. S. D., New York, 1911).

Waltham Watch Co. v. Keene, 191 Fed., 855 (C. C. S. D., New York, 1911).

The Fair v. Dover Mfg. Co., 166 Fed., 117 (C. C. A., 7th C., 1908).

A. B. Dick Co. v. Milwaukee Office Specialty Co., 168 Fed., 930 (C. C. E. D., Wisconsin, 1908).

Crown Cork & Seal Co. v. Brooklyn Bottle Stopper Co., 172 Fed., 225 (C. C. E. D., New York, 1909).

Crown Cork & Seal Co. v. Greenberger, 174 Fed., 252 (C. C. N. D., Illinois, 1909); *Same v. Widrig*, 190 Fed., 200.

Commercial Acetylene Co. v. Autolux Co., 181 Fed., 387 (C. C. E. D., Wisconsin, 1900).

Edison v. Ira M. Smith Mercantile Company, 188 Fed., 925 (C. C. W. D., Michigan).

See also:

National Phonograph Co. of Australia v. Menck, 104 L. T. Rep., 5, Privy Council, Feb. 3, 1911.

Incandescent Gas Light Co. of Cantele, 12 Pat. Cas., 262 (1895).

Incandescent Gas Light Co. v. Brogden, 16 Pat. Cas., 179.

British Mutoscope & Biograph Co., Limited, v. Homer, 84 L. T. (1901), 1 Ch., 671.

Badische Anilin, etc., v. Isler (1906), 1 Ch., 611.

McGruther v. Pitcher, 91 L. T. Rep., 678 (1904), 2 Ch., 306.

But compare:

Cortelyou v. Johnson, 145 Fed., 933 (C. C. A., 2nd C., 1906). Affirmed, 207 U. S., 196 (1907).

The first proposition rests upon the principle stated by Judge Wallace in *Strait v. National Harrow Company*:¹⁵

"The party having such a patent has a right to bring suit on it, not only against a manufacturer who infringes, but against dealers and users of, the patented article, if he believes the patent is being infringed; and the motive which prompts him to sue is not open to judicial inquiry, because, having a legal right to sue, it is immaterial whether his motives are good or bad, and he is not required to give his reasons for the attempt to assert his legal rights. * * * If the defendant had brought suit against the plaintiffs for some breach of contract or violation of its alleged rights, founded upon the combination agreement, then it might become pertinent to inquire into the character of the combination, and ascertain whether the court would enforce any rights growing out of it. But in a suit brought for the infringement of a patent by the owner, any such inquiry, at the behest of the infringer, would be as impertinent as one in respect to the moral character or antecedents of the plaintiff in an ordinary suit for trespass upon his property."

The contrary view rests upon the grounds stated by Judge Baker in *National Harrow Co. v. Quick*:¹⁶

"The common law forbids the organization of such combinations, composed of numerous corporations and firms. They are dangerous to the peace and good order of society, and they arrogate to themselves the exercise of powers destructive of the right of free competition in the markets of the country, and, by their aggregate power and influence, imperil the free and pure administration of justice. *Strait v. Harrow Co.* (*sup.*), 18 N. Y. Supp., 224; *Richardson v. Buhl*, 77 Mich., 632, 43 N. W., 1102; *Emery v. Candle Co.*, 47 Ohio St., 320, 24 N. E., 660; *State v. Nebraska Distilling Co.*, 24 Neb., 700, 46 N. W., 155.

"In suits at law it is doubtless true, as a general proposition, that a wrongdoer will not be permitted to dispute the legal title of one in possession of money or of property by showing that the title thereto was unlawfully acquired, or that the owner intends to apply it to an unlawful one. I have strong doubts whether this rule ought to apply it to an unlawful use. I have strong doubts whether this rule ought to apply to a suit in equity, where nothing but clean hands and a good conscience will move the court to act. The combination represented by the complainant is not illegal in any other sense, except that the law will not lend its aid to the accomplishment of its purposes. The common law does not prohibit the making of such combinations. It merely declines, after

¹⁵ 51 Fed., 819, 820 (C. C. N. D., New York, 1892).

¹⁶ 67 Fed., 130, 131-132 (C. C. D., Indiana, 1895).

they have been made, to recognize their validity, by refusing to make any decree or order which will in any way give aid to the purposes of such combinations. It seems to me that the court cannot sustain the present bill without giving aid to the unlawful combination or trust represented by the complainant. The question is not free from doubt, but in a case of doubt I felt it my duty to resolve it in such a way as will not lend the countenance of the court to the creation of combinations, trusts, or monopolies."¹⁷

Upon appeal in this case¹⁸ the Circuit Court of Appeals for the Seventh Circuit, reviewing the decision below, took pains to affirm judgment upon grounds other than those quoted above from Judge Baker's opinion, and added that

"while not prepared, in view of the authorities, to sanction the proposition that the infringer of a patent may escape liability by showing that the legal owner is engaged in a supposed unlawful combination or trust, we do not consider the point."

Although the Supreme Court, in *Bement v. National Harrow Co.* was careful to state that the Court could not assume upon the record that "there was a general combination among the dealers in patented harrows to regulate the sale and price of such harrows," there is much in that opinion, and also in the very recent opinion of *Henry v. A. B. Dick Co.* (U. S. Supreme Court, March 11, 1912, not yet reported), to indicate that the Supreme Court does not accept the doctrine laid down by Judge Baker.

In the Circuit Court of Appeals for the Second Circuit, and in several Circuit Courts, Judge Baker's doctrine has been expressly repudiated, and the reasoning of Judge Wallace has been adopted.¹⁹

¹⁷ Compare:

National Harrow Co. v. Henck, 76 Fed., 667 (C. C. E. D., Pennsylvania, 1896). Affirmed, 83 Fed., 36 (C. C. A., 3rd C., 1897).

¹⁸ *National Harrow Company v. Quick*, 74 Fed., 236 (C. C. A., 7th C., 1896).

¹⁹ *Columbia Wire Co. v. Freeman Wire Co.*, 71 Fed., 302, 306 (C. C. E. D., Missouri, 1895).

National Folding Box & Paper Co. v. Robertson, 99 Fed., 985, 987 (C. C. D., Connecticut, 1900).

Otis Elevator Co. v. Geiger, 107 Fed., 131, 133 (C. C. D., Kentucky, 1901).

General Electric Co. v. Wise, 119 Fed., 922, 924 (C. C. N. D., New York, 1903).

Compare:

Edison Electric Light Co. v. Sawyer Man Electric Co., 53 Fed., 592, 598 (C. C. A., 2nd C., 1892).

Nothing in *Continental Wall Paper Co. v. Voight & Sons Co.*²⁰ is inconsistent with this first proposition. In that case, a number of manufacturers, situated in different states and engaged in manufacturing wall paper sold in different states, organized the Continental Wall Paper Company as a selling company, through which their entire output, in accordance with an agreement between themselves, was sold to such persons only as entered into a purchasing agreement by which their sales were restricted. This combination was held to be illegal under the Sherman Act, and a vendee of goods purchased from such illegal combination, in pursuance of such illegal purchasing agreement, was allowed to plead such illegality as a defense. The Court recognized that a voluntary purchaser of goods at stipulated prices under a collateral independent contract cannot avoid payment merely on the ground that the vendor was an illegal combination (citing *Connolly v. Union Sewer Pipe Co.*,²¹ and rested its decision entirely on the point that, in the present case, recovery was sought upon agreements "which had for their object, and which it is admitted had directly the effect, to accomplish the illegal ends for which the Continental Wall Paper Company was organized." The Court thus accepted precisely the reasoning of Judge Wallace's opinion. In another part of the opinion the Court quoted with approval *Bement v. National Harrow Company*.

The first proposition above set forth is thus established by the clear weight of authority.

IV.

Second: *The owner of a patent may impose restrictions upon the use of the patent and the manufacture and sale of the patented article by the licensee, and such restrictions, if part of an express agreement between the owner and such licensee, may be enforced by the owner against such licensee.*

This second proposition above set forth is illustrated in the four following cases:

In *United States Consolidated Seeded Raisin Company v. Griffin & Skelley Company*,²² the plaintiff sued for breach of an agreement between the plaintiff and the defendant under which

²⁰ 212 U. S., 227 (1909).

²¹ 184 U. S., 540.

²² 126 Fed., 364 (C. C. A., 9th C., 1903).

the defendant, with other parties, assigned to the plaintiff certain patents and the plaintiff granted licenses thereunder to the defendant and to the other parties to the contract. The contract provided that the defendant and the other licensees should pay certain fixed royalties which should be divided among the owners of all the patents in certain fixed proportions; that the plaintiff should protect and keep up the patent monopoly and prosecute all infringers; that the plaintiff should grant additional licenses under the patent to such persons only as a committee selected by the plaintiff and the licensees should name; that the licensees should use and own the patented machines in strict compliance with specified conditions, and should use no other patented machines. The Circuit Court instructed the jury to return a verdict for the defendant on the ground that the contract was contrary to public policy and tended to create a monopoly and violation of the anti-trust law of California. Judgment for the defendant was entered on this verdict. The Circuit Court of Appeals, however, upon the authority of *Bement v. National Harrow Company* and *Columbia Wire Company v. Freeman Wire Company*²³ held that the contract was not void for any of these reasons, and accordingly reversed the judgment of the Circuit Court.

In *Rubber Tire Vehicle Company v. Milwaukee Rubber Works Company*,²⁴ the plaintiff sued to recover royalties on account of the defendant's use of certain patents under license agreements between the plaintiff as owner of a patent for rubber tired wheels and the defendant and other licensees. These license agreements established uniform prices and fixed the percentage of output which could be made and sold by each licensee and provided that commissioners employed by the plaintiff should supervise the business of all licensees and receive a specified proportion of the royalties and distribute such fund among the licensees according to their quota of trade or use such fund with the consent of the majority to purchase tires from any or all of the licensees and sell the same to the trade at such prices as they should deem for the best interest of all. The Circuit Court directed judgment in favor of the plaintiff and the Circuit Court of Appeals affirmed this judgment. Judge Baker, writing the opinion of the Court, stated that the question could not be disposed of upon the author-

²³ 71 Fed., 302, C. C. E. D., Missouri, 1895.

²⁴ 154 Fed., 358 (C. C. A., 7th C., 1907).

ity of *Bement v. National Harrow Company*, but that "aided by the declarations of general principles in that and other cases we must formulate our own answer." He then continued:

"Under its constitutional right to regulate interstate commerce Congress made illegal 'every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce among the several states,' and subjected to liability to fine or imprisonment 'every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states.' Congress, having created the patent law, had the right to repeal or modify it, in whole or in part, directly or by necessary implication. The Sherman law contains no reference to the patent law. Each was passed under a separate and distinct constitutional grant of power. Each was passed professedly to advantage the public. The necessary implication is that not one iota was taken away from the patent law; the necessary implication is that patented articles, unless or until they are released by the owner of the patent from the dominion of his monopoly are not articles of trade or commerce among the several states. The evils to be remedied by the Sherman law are well understood. Articles in which the people are entitled to freedom of trade were being taken as the subjects of monopoly; instrumentalities of commerce between which the people are entitled to free competition were being combined. The means of effecting and the form of the combination are immaterial; the result is the criterion. The true test of violation of the Sherman law is whether the people are injured, whether they are deprived of something to which they have a right. *Northern Securities Co. v. United States*, 193 U. S., 197, 24 Sup. Ct., 436, 48 L. Ed., 679.

"Grant (plaintiff's assignor of the patent on which plaintiff was suing) produced a new integer in the useful arts. See *Consolidated Rubber Tire Co. v. Firestone Tire & Rubber Co.* (C. C. A. Second Circuit, Jan. 30, 1907, Feb. 1, 1907), 151 Fed., 237. Plaintiff, as his successor in interest, is the owner of a valid patent. That stands as an unquestionable fact on this writ of error. The only grant to the patentee was the right to exclude others, to have and to hold for himself and his assigns a monopoly, not a right limited or conditioned according to the sentiment of judges, but an absolute monopoly constitutionally conferred by the sovereign lawmakers. Over and above an absolute monopoly created by law, how can there be a further and an unlawful monopoly in the same thing? If plaintiff were the sole maker of Grant tires, how could plaintiff's control of prices and output injure the people, deprive them of something to which they have a right? Is a greater injury or deprivation inflicted, if plaintiff authorizes a combination or pool to do what plaintiff can do directly? To say "yes" means that substance is disregarded, that mere words confer

upon the people some sort of a right or interest counter to the monopoly, when by the terms of the bargain the people agreed to claim none until Grant's deed to them shall have matured. * * *

"None of the provisions of the contract, in our judgment, touched any matter outside of the monopoly under the patent. The control of prices and output, for reasons already stated, did not deprive the public of any right. Both before and after the period covered by the contract the market was demoralized, prices were cut, and the owner of the patent was getting nothing except by the slow and expensive process of litigation; but the public was not entitled to profit by competition among infringers. The interval agreements relating to royalties, proportioning the business, supervision, and penalties did not affect or concern the public at all."

In *Indiana Manufacturing Co. v. J. I. Case Threshing Machine Co.*,²⁵ the plaintiff sued for an accounting and for an injunction restraining the defendant from making, using or selling stackers except in compliance with the terms of the license which the plaintiff had previously granted to all its licensees, including defendant. By the terms of the license agreements, the defendant and other licensees were required to maintain a fixed price, put on patent marks, and pay the plaintiff a fixed royalty, and the plaintiff gave the defendant and the other licensees the benefit of any more favorable terms extended to subsequent licensees. The plaintiff alleged that the defendant was manufacturing stackers which infringed upon the plaintiff's patents and that the defendant declined to comply with the terms of the license agreement in respect to the stackers so manufactured. Among other defenses, the defendant urged that the license agreement violated the Sherman Act. The Circuit Court dismissed the bill. In reversing the decree of the Circuit Court, the Circuit Court of Appeals held that the Sherman Anti-Trust Act was not violated, and added that "if, as a condition of enjoying the inventions, appellant had required the licensees to form a pool or combination for controlling the price and output of the patented article, the public would not have been injured, and consequently the Sherman law would not have been violated."

In *Goshen Rubber Works v. Single Tube A. & B. Tire Company*²⁶ a patentee sued a licensee to recover the royalties agreed upon for the use of the invention. By the license agreement, the sales of tires made by each licensee were supervised by a com-

²⁵ 154 Fed., 365 (C. C. A., 7th C., 1907).

²⁶ 166 Fed., 431 (C. C. A., 7th C., 1908).

missioner appointed under the agreement, and each licensee paid to the commissioner a ratable amount in proportion to the quota of output allotted to such licensee and an additional royalty on any amount exceeding such quota and paid a forfeit in case he sold any tires at less than the prices specified by its agreement. In affirming judgment for the plaintiff, the Circuit Court of Appeals held that the license agreement was not in violation of the Sherman Anti-Trust Act and said:

"The only right secured to the public by the licenses was to purchase tires after they had been manufactured and offered for sale. It did not obtain the right to have the competition toward the different licensees continued or in any way obtain the embargo against the modification of the licenses."

In opposition to the authorities above cited are several cases which are often advanced in support of the view that this second proposition does not obtain when the owner of the patent is a combination, or a party to a combination, formed or existing for the purpose of monopolizing or preventing competition among patents of the same general character.

The case most frequently cited as authority for this alleged modification of the second proposition above mentioned is *National Harrow Company v. Hench*,²⁷ in which the Court said:

"The fact that the property involved is covered by letters patent is urged as a justification; but we do not see how any importance can be attributed to this fact. Patents confer a monopoly as respects the property covered by them, but they confer no right upon the owners of several distinct patents to combine for the purpose of restraining competition and trade. Patented property does not differ in this respect from any other. The fact that one patentee may possess himself of several patents, and thus increase his monopoly, affords no support for an argument in favor of a combination by several distinct owners of such property to restrain manufacture, control sales and enhance prices. Such combinations are conspiracies against the public interest, and abuses of patent privileges. The object of these privileges is to promote the public benefit, as well as to reward inventors. The suggestion that the contract is justified by the situation of the parties—their exposure to litigation—is entitled to no greater weight. Patentees may compose their differences, as the owners of other property may, but they cannot make the occasion an excuse or cloak for the creation of monopolies to the public disadvantage."

²⁷ 83 Fed., 36 (C. C. A., 3rd C., 1897).

While this precise point was not passed upon by the Supreme Court in *Bement v. National Harrow Company* five years later, the breadth of language in which the Supreme Court laid down the principles governing that case and the eloquent omission of the Supreme Court to approve or even mention *National Harrow Co. v. Hench*—notwithstanding that the facts of that case closely resembled the facts in *Bement v. National Harrow Co.*—are very significant circumstances. The recent decision of the Supreme Court in *Henry v. A. B. Dick Co.* (not yet reported), is inconsistent with proposition laid down in *National Harrow Company v. Hench*.

The proposition stated in *National Harrow Co. v. Hench* was apparently approved by Judge Brown in *Blount Manufacturing Co. v. Yale & Towne Manufacturing Co.*²⁸ There the question was raised on a demurrer to a bill for an accounting in accordance with the terms of certain contracts which were construed to restrain competition between the parties, to prevent the parties from furnishing to the public new styles of liquid door checks, patented or unpatented, anywhere in the United States, and to apportion among the parties the profits arising from the manufacture and sale of checks, patented and unpatented, anywhere in the United States. The pleadings and argument of counsel show that the only question raised was whether the contracts covered unpatented as well as patented checks; and that it was never seriously questioned that if the contracts covered unpatented as well as patented checks the contracts were in violation of the Sherman Anti-Trust Act. Having interpreted the contracts to cover unpatented as well as patented checks, the Court necessarily sustained the demurrer to the bill. The actual decision, therefore, is in no way authority for any modification of the second proposition above mentioned. The doctrine laid down in *National Harrow Co. v. Hench* was not at all involved. So much of Judge Brown's opinion as seems to take issue with the second proposition above mentioned is not only inconsistent with the recent decision of the Supreme Court in *Henry v. A. B. Dick Co.* (not

²⁸ 166 Fed., 555 (C. C. D., Massachusetts, 1909). Misapprehension concerning the exact issue involved in this case has led to considerable misinterpretation of Judge Brown's opinion and to its misapplication—notably in Gladney: *Restraints of Trade in Patented Articles*—in support of propositions which, it is submitted, are fundamentally inconsistent with well settled principles of patent law.

yet reported), and at variance with the overwhelming weight of authority but it is, at best, only dictum in the case.

V.

Third: *The owner of a patent may impose restrictions upon the use and re-sale of the patented article by the party to whom such article is sold, and such restrictions, if made known to such party, may be enforced against such party by the owner of the patent, even though no express agreement exists between them.*

The leading case for the third proposition above set forth—until the very recent decision of the Supreme Court in *Henry v. A. B. Dick Co.* (not yet reported), announced March 11, 1912, while this article was in press, but which will be discussed in a subsequent article—is *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*²⁹ This was an appeal from the decree of the lower Court sustaining a demurrer to the plaintiff's bill. Plaintiff owned several patents relating to the art of fastening buttons to shoes with metallic fasteners and the machines embodying these patents were in general use in the shoe trade and "wholly superseded every other mode of fastening buttons to shoes." All machines sold by the plaintiff bore a conspicuous metal plate on which was plainly expressed a restriction to the effect that the machine was sold and purchased to use only with fasteners made by the plaintiff and that title should revert upon any violation of this restriction. The plaintiff alleged that the defendants, with full knowledge of these facts, made and sold staples adapted only for use in such machines for the purpose of inducing the users of such machines to violate such restrictions. In reversing the decree, the Court, (Judges Taft, Lurton and Hammond, Judge Lurton writing the opinion of the Court) unanimously held that the fact that the plaintiff

"sells the machine through jobbers and not directly to those who buy for use, is immaterial, under the facts stated on the face of the bill. The jobber buys and sells subject to the restriction and both have notice of the conditional character of the sale and of the restriction on the use."

The Court traced the derivation of this rule to the inherent nature of the patent right:

²⁹ 77 Fed., 288 (C. C. A., 6th C., 1892).

"A use prohibited by the license is a use in defiance of the monopoly reserved by the patentee and necessarily an unlawful infringement of the rights secured to him by his patent. * * * The patentee has the exclusive right of use, except in so far as he has parted with it by his license. The essence of the monopoly conferred by the grant of letters patent is the exclusive right to use the invention or discovery described in the patent. This exclusive right of use is a true and absolute monopoly, and is granted in derogation of the common right, and this right to monopolize the use of the invention or discovery is the substantial property right conferred by law, and which the public is under obligation to respect and protect. 'The right to make and use, or sell, is completely severable rights, and involves the right to confer on others such qualified privilege, whether of making, of selling to others, or of using, as he sees fit, whether within specified limits, or under limitations of quantity or numbers or restricted use.' *Dorsey Revolving Harvester Rake Co. v. Bradley Manufacturing Co.*, 12 Blatchf., 202, Fed. Cas. No. 4,015. In *Adams v. Burke*, 17 Wall., 453-456, the Court said, 'The right to manufacture, the right to sell, and the right to use, are each substantive rights, and may be granted separately or conferred together by the patentee.'"

The Court then took up the objection that the rule which it had laid down might give the patentee a "practical monopoly of the market" for an unpatentable product made with the patented device. The Court disposed of this objection by showing that such "practical monopoly," far from offending public policy, actually promotes the general welfare, because the patentees can attain it only by "cheapening the cost of manufacture," and can continue it only "so long as their invention was not superseded by subsequent inventions still further cheapening the cost of manufacture." So cogent is the reasoning of the Court that it deserves careful attention:

"If the patentee choose to reserve to himself the exclusive use of his device, and the invention be of a wide character, and so radical as to enable him to make and sell an unpatentable product cheaper than any other competitor, a practical monopoly of the market for that article will result; and yet no one could say that a monopoly thus secured was illegitimate, or obnoxious to public policy.

"To illustrate: Let it be supposed that the patents owned by this complainant were of so wide a character as to cheapen the process of manufacturing shoes, and to drive from competition all other mode of manufacture. Then suppose the patentees were of opinion that they could most profitably enjoy their inventions by retaining the monopoly of the use, and engaging in the manufacture of shoes. If content to undersell all others, they

could engross the market for shoes, to the extent of their capacity to supply the demand during the life of their patents, or so long as their invention was not superseded by subsequent inventions still further cheapening the cost of manufacture. The monopoly thus secured would be the legitimate consequence of the meritorious character of their invention. Yet just such monopolies may result whenever a new and surprising advance is made in some art of wide and general use. The great consuming public would be benefited, rather than injured, for the monopoly could endure so long only as shoes were supplied at a less price than had prevailed before the invention.

"Now, if the patentees, by retaining to themselves the exclusive use of their invention, are able, legitimately and lawfully, to acquire a monopoly of the manufacture of shoes, and destroy the shoe market for those who before had shared it, why may they not, by a system of restricted licenses, permit others to use their devices on condition that only some minor part of the shoe,—the pegs, the tips, the thread or the buttons, or the button fasteners,—shall be bought from them? If these concessions were such as to enable others to compete though their use of the mechanism was restricted by the terms of the license, who could justly complain, if the inventors, content with a monopoly of the market for the article named in their license, surrendered the opportunity for a monopoly of the manufacture of the complete shoe?"

In the recent decision of the Supreme Court in *Henry v. A. B. Dick Co.* (not yet reported), the Court stated this economic argument still more succinctly:

"The public is always free to take or refuse the patented article on the terms imposed. If they be too onerous or not in keeping with the benefits, the patented article will not find a market. The public, by permitting the invention to go unused, loses nothing which it had before, and when the patent expires will be free to use the invention without compensation or restriction."

Returning to the facts before it the Court, in *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*, continued:

"The inventions covered by complainant's patents are not of such character as to enable them, by retaining the exclusive use, to absorb either the making of shoes, or the minor work of fastening buttons to shoes. In the exercise of the right of exclusive use, they have put on the market a structure embodying their devices, and licensed the purchaser to use the invention 'only with staples' made by themselves. In other words, they have chosen to fix the price for the right of use at the profit resulting from the sale of staples. As observed by counsel for complainant, 'The fasteners are thus made the counters by which the royalty proportioned to the actual use of the machine is deter-

mined.' This method of licensing their mechanism may or may not result in the engrossment of the market for staples. So long as their invention controls the market for button-fastening appliances, and to the extent that their machines shall supersede other modes of clinching staples, just so long will they be enabled to control the market for staples. Their monopoly in an unpatented article will depend upon the merit of their patented device, and the extent to which other clinching devices are superseded by it."

The common sense underlying this rule was well expressed in the comment of another justice:⁸⁰

"The owner might stipulate for a price or royalty to be received entirely in a stated sum of money or in part in the profits that he would make in furnishing fasteners at an agreed price for use in the machine. The purchaser who could not obtain the machine at all except upon such terms as the owner should choose to impose might as well agree to pay for it in that way as in any other."

An English judge has stated the same principle in even homelier language:⁸¹

"The patentee has the sole right of using and selling the articles and he may prevent anybody from dealing with them at all. Inasmuch as he has the right to prevent people from using them or dealing in them at all, he has the right to the lesser thing, that is to say, to impose his own conditions. It does not matter how unreasonable or how absurd the conditions are. It does not matter what they are, if he says at the time when the purchaser proposes to buy or the person to take a license: 'Mind I only give you this license on this condition,' and the purchaser is free to take it or leave it as he likes. If he takes it he must be bound by the condition. It seems to be common sense and not to depend upon any patent law or any other particular law."

The economic and legal foundation on which the Court built the logic of its great decision in *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.* was succinctly defined by the Court itself in these few words:

⁸⁰ *Opinion of the Justices*, 193 Mass., 605, 614-615 (1907), opinion of Morton, C. J., and Knowlton, J.

⁸¹ *Incandescent Gas Light Co., Limited v. Cantello*, 12 Pat. Cas., 262 (1895), approved and followed in *National Phonograph Company of Australia v. Menck*, 104 L. T. Rep., 5, Privy Council (Feb. 3, 1911), *Incandescent Gas Light Co. v. Brogden*, 16 Pat. Cas., 179; *British Mutoscope & Biograph Co., Limited v. Homer*, 84 L. T. Rep., 261 (1901), 1 Ch., 671, and *McGruther v. Pitcher*, 91 L. T. Rep., 678 (1904), 2 Ch., 306.

"The monopoly in the unpatented staple results as an incident from the monopoly in the use of complainant's invention, and is therefore a legitimate result of the patentee's control over the use of his invention by others. Depending, as such a monopoly would, upon the merits of the invention to which it is a mere incident, it is neither obnoxious to public policy, nor an illegal restraint of trade."³²

This masterly decision in which Judge Taft, now President of the United States, and Judge Lurton, now an associate justice of the Supreme Court, both participated and concurred, is the foundation of the recent decision of the Supreme Court in *Henry v. A. B. Dick Co.* (not yet reported), and has repeatedly been cited with approval by the Federal Courts of other circuits and by the Supreme Court.³³

*Cortelyou v. Johnson*³⁴ is sometimes cited as expressing an apparent modification of the third proposition above set forth. There the defendant was charged with contributory infringement of the plaintiff's patent. The plaintiff manufactured and sold a patented rotary mimeograph which bore a notice to the effect that the machine was sold "with the license restriction that it can be

³² For an equally well-reasoned discussion of principles, as well as a review and an endorsement of the English decision which have applied the same rule, see *National Phonograph Co. of Australia v. Menck*, 104 L. T. Rep., 5, Privy Council, (Feb. 3, 1911).

³³ See:

Bement v. National Harrow Co., 186 U. S., 70, 90 (1902).

Bobbs-Merrill Co. v. Straus, 210 U. S., 339, 345 (1908).

Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U. S., 405, 425 (1908).

Henry v. A. B. Dick Co., U. S. Supreme Court, March 11, 1912 (not yet reported).

Cortelyou v. Lowe, 111 Fed., 1005 (C. C. A. 2nd C., 1901).

Goodyear Shoe Machinery Co. v. Jackson, 112 Fed., 146, 148 (C. C. A., 1st C.)

Fuller v. Berger, 120 Fed., 274, 277 (C. C. A., 7th C., 1903).

Victor Talking Machine Co. v. The Fair, 123 Fed., 424 (C. C. A., 7th C., 1903).

National Phonograph Co. v. Schlegel, 128 Fed., 733, 735 (C. C. A., 8th C., 1904).

James Heekin Co. v. Baker, 138 Fed., 63, 66 (C. C. A., 8th C., 1905).

Indiana Manufacturing Co. v. J. I. Case Threshing Machine Co., 154 Fed., 365, 367 (C. C. A., 7th C., 1907).

St. Louis Flushing Machine Co. v. Sanitary Street Flushing Machine Co., 178 Fed., 923, 927 (C. C. A., 9th C., 1910).

³⁴ 145 Fed., 933 (C. C. A., 2nd C., 1906).

used only with stencil paper, ink and other supplies made by the Neostyle Company." The Court dismissed the bill on the ground that the defendant had not sufficient notice of this restriction. The Court then expressed its acceptance of the rule laid down in *Heaton-Peninsula Button Fastener Company v. Eureka Specialty Company* and considered its decisions in *Cortelyou v. Lowe*,³⁵ *Cortelyou v. Carter's Ink Company*,³⁶ *Brodrick Copygraph Company of New Jersey v. Mayhew*³⁷ and *Mayhew v. Brodrick Copygraph Company*.³⁸ The Court (Judge Townsend strongly dissenting) then said:

"When confined to articles, whether covered by the patent or not, which are made for the express purpose of inducing infringement and are not intended for any legitimate use, the doctrine of contributory infringement is logical, just and salutary. But we doubt the wisdom of extending it to the ordinary commodities of life, used in connection with a patented machine, because the patentee sells or licenses the machine upon the condition that he alone is to furnish these commodities. Care should be taken that the courts, in their efforts to protect the rights of patentees, do not invade the just rights of others engaged in legitimate occupations, by creating new monopolies not covered by patents and by placing unwarrantable restrictions upon trade. We think it is clear that the doctrine may be carried far enough to produce such results. For instance, should the patentee of a fountain pen by such a notice as we have under consideration, be permitted to hold as an infringer one who sells ink to the owner of the pen even though he knows of the restriction? To compel the dealer to make inquiries and take the precautions necessary to save himself from being sued as an infringer would place intolerable burdens upon business. Should the patentee of a motor car, by such proceedings, be able to hold the monopoly on all gasoline used in its propulsion, or the patentee of a stove or a refrigerator have an action of infringement against one who furnishes ice or coal, respectively to its owner? These may seem to be extreme cases and yet they are not so far beside the mark as may at first appear. It was stated at the Bar that among the 'supplies' necessary for the operation of neostyle were oil and varnish. It is not easy to perceive how a machinist lubricates the machine and the painter who varnishes it can escape the charge of infringement. If the doctrine be driven to its ultimate conclusion the merchant and the consumer may find themselves enmeshed in a network of monopolies embracing all the necessities of life. No one may safely sell

³⁵ 111 Fed., 1005 (C. C. A., 2nd C., 1901).

³⁶ 118 Fed., 1022 (C. C. S. D., New York, 1902).

³⁷ 131 Fed., 92 (C. C. E. D., Wisconsin, 1902).

³⁸ 137 Fed., 696 (C. C. A., 7th C., 1905).

coffee to the consumer but the patentee of his coffee mill, no one can furnish him flour but the patentee of his baking pans and he may yet be compelled to buy milk from the patentee of his milk-can and soap from the patentee of his bath-tub. It is manifest that the doctrine may be expanded *ad infinitum*. We incline to the opinion that the line should be drawn to improve these articles which are either parts of a patented combination or a device or which are produced for the sole purpose of being so used and to exclude the staple articles of commerce.

"For these reasons we think that the complainants should be confined strictly to existing law and that the doctrine should not be expanded so as to brand as a wrong-doer one who, having no arrangement express or implied with the patentee, sells to the public commodities needed in the ordinary affairs of life."

Upon appeal,³⁹ the Supreme Court affirmed the decision on the ground that the defendant had not sufficient notice of the restriction, and said:

"While in *Bement v. National Harrow Company*, 186 U. S., 70, this Court held, in respect to patent rights, that with few exceptions 'any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts,' it is unnecessary to consider how far a stipulation in a contract between the owner of a patent right and the purchaser from him of a machine manufactured under that right, that it should be used only in a certain way, will sustain an action in favor of the vendor against the purchaser in case of a breach of that stipulation."

In the very recent decision of the Supreme Court in *Henry v. A. B. Dick Company*—announced March 11, 1912, while this article was in press, and not yet reported, but which will be discussed in a subsequent article—the Court expressly held (Chief Justice White, and Justices Hughes and Lamar *dissenting*) that the defendant Henry committed contributory infringement of the complainant company's patents covering the mimeograph above mentioned, when he sold to one who had purchased from the complainant a mimeograph bearing the notice of a license restriction similar to that above quoted, some unpatented ink "suitable for use upon said mimeograph, with knowledge of the said license agreement, and with the expectation that it would be used in connection with said mimeograph."

In this state of the decisions, it must be said that the third proposition above set forth is supported by the overwhelming

³⁹ *Cortelyou v. Johnson*, 207 U. S., 196, 1907.

weight of authority. Even if the modification suggested in the single case of *Cortelyou v. Johnson*⁴⁰ and negated by the recent decision of the Supreme Court in *Henry v. A. B. Dick Co.* (not yet reported), should ever, in the future, become established, it will be noted that it merely saves from contributory infringement suits parties who furnish general articles of commerce to users of patented articles.

Several lines of cases, frequently cited as standing for a modification of the third proposition above set forth, may readily be distinguished.⁴¹

In *Bobbs-Merrill Co. v. Straus*⁴² the plaintiff sued to restrain the defendants from selling at retail for less than one dollar a copyrighted novel published by the plaintiff. No contract existed between the parties, but in the novel the plaintiff printed a notice stating that the retail price is \$1.00 and that "no dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright." Justice Day, giving the opinion of the Court, affirmed the decree dismissing the bill, and stated (343) that "a case such as the present one, concerning inventions protected by letters patent of the United States, has not been decided in this Court, so far as we are able to discover." In this connection he took pains to distinguish the cases of *Cotton Tie Company v. Simmons*,⁴³ *Morgan Envelope Co. v. Albany Paper Co.*,⁴⁴ *Bement v. National Harrow Co.*, and *Cortelyou v. Johnson*.⁴⁵ Justice Day then continued:

"If we were to follow the course taken in the argument, and discuss the rights of a patentee under letters patent, and then, by

⁴⁰ 145 Fed., 933.

⁴¹ Copyright cases:

Bobbs-Merrill Company v. Straus, 210 U. S., 339 (1908).

Mines v. Scribner, 147 Fed., 927 (C. C. S. D., New York, 1906).

Proprietary medicine cases:

Jayne v. Loder, 149 Fed., 21 (C. C. A., 3rd C., 1906).

John D. Park & Sons Co. v. Hartman, 153 Fed., 24 (C. C. A., 6th C., 1907). Appeal dismissed, 212 U. S., 588, 1908.

Dr. Miles Medical Company v. Jaynes Drug Company, 149 Fed., 838 (C. C. D., Massachusetts, 1906).

Dr. Miles Medical Company v. John D. Parks & Sons Company, 220 U. S., 373 (1911).

⁴² 210 U. S., 339 (1908).

⁴³ 106 U. S., 89.

⁴⁴ 152 U. S., 425.

⁴⁵ 207 U. S., 196.

analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that character shall be presented to this Court.

"We may say in passing, disclaiming any intention to indicate our views as to what would be the rights of parties in circumstances similar to the present case under the patent laws, that there are differences between the patent and copyright statutes in the extent of the protection granted by them. This was recognized by Judge Lurton, who wrote a leading case on the subject in the Federal courts (*The Button Fastener Case*, 77 Fed. Rep., 288), for he said in the subsequent case of *Park & Sons v. Hartman*, 153 Fed. Rep., 24:

"There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other."

Justice Day then approached the consideration of the question "as a new one in this Court," and concluded:

"In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract. * * * To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment."

In *Dr. Miles Medical Co. v. Park & Sons Co.*,⁴⁶ the plaintiff manufactured and sold proprietary medicines to such jobbers only as agreed with the plaintiff to maintain certain fixed prices for all sales by all wholesale and retail dealers, whether purchasers or sub-purchasers. The defendant refused to enter into this agreement, and obtained some of the plaintiff's products and advertised and sold them at less than the fixed price provided in this agreement. The plaintiff prayed for an injunction restraining the defendant from such conduct and asked for an accounting. The plaintiff argued that the restrictions in its system of contracts were valid because they related to proprietary medicines manufactured under a secret process, and because, apart from this, a manufacturer is entitled to control the price in all sales of his own

⁴⁶ 220 U. S., 373 (1911).

product. In support of this contention, the plaintiff urged an analogy of rights secured by letters patent, and cited portions of the opinion in *Bement v. National Harrow Company*. The Supreme Court affirmed the decree dismissing the bill. Justice Hughes, writing the opinion of the Court, held that the case presented no analogy to letters patent. The case, he said,

"lies outside the policy of the patent law, and the extent of the right which that law secures is not here involved or determined. * * * The questions concern not the process of manufacture, but the manufactured product, an article of commerce. * * * Because there is monopoly of production, it certainly cannot be said that there is no public interest in maintaining freedom of trade with respect to future sales after the article has been placed on the market and the producer has parted with his title. * * * But because a manufacturer is not bound to make or sell, it does not follow that in case of sales actually made he may impose upon purchasers every sort of restriction. * * * Nor can the manufacturer by rule and notice, in the absence of contract or statutory right, even though the restriction be known to purchasers, fix prices for future sales. * * * Whatever right the manufacturer may have to project his control beyond his own sales must depend, not upon the inherent power incidental to protection and original ownership, but upon agreement. * * * The present case is not analogous to that of a sale of good will, or of an interest in a business, or of the grant of a right to use a process of manufacture. * * * The agreements are designed to maintain prices, after the complainant has parted with the title to the articles and to prevent competition among those who trade in them. * * * If there be an advantage to a manufacturer in the maintenance of fixed retail prices, the question remains whether it is one which he is entitled to secure by agreements restricting the freedom of trade on the part of dealers who own what they sell. * * * No distinction can properly be made by reason of the particular character of the commodity in question. It is not entitled to special privilege or immunity. It is an article of commerce and the rules concerning the freedom of trade must be held to apply to it. Nor does the fact that the margin of freedom is reduced by the control of production make the protection of what remains, in such a case, a negligible matter. And where commodities have passed into the channels of trade and are owned by dealers, the validity of agreements to prevent competition and to maintain prices is not to be determined by the circumstance whether they were produced by several manufacturers or by one, or whether they were previously owned by one or by many. The complainant having sold its product at prices satisfactory to itself, the public is entitled to whatever advantage may be derived from competition in the subsequent traffic."

In both of the cases last quoted, and in the groups of cases of which they are representative, and particularly in its very recent decision in *Henry v. A. B. Dick Co.* (not yet reported), the Court was careful to state that the facts of these cases presented no analogy to cases relating to patented articles. The distinction between the copyright cases and the proprietary medicine cases, on the one hand, and cases involving the patent rights, on the other hand, was expressed by Judge Lurton (now an associate justice of the Supreme Court) in the opinion of the Court in *John D. Park & Sons Co. v. Hartman*,⁴⁷ and the inapplicability of the Sherman Anti-Trust Act to contracts regarding the use and price of patented articles was emphatically stated as follows:

"That articles made under patents may be the subject of contracts by which their use and price in sub-sales may be controlled by the patentee, and that such contracts, if otherwise valid, are not within the terms of the act of Congress against restraints of interstate commerce or the rules of the common law against monopolies and restraints of trade, is now well settled. *Heaton-Peninsular Button Co. v. Eureka Specialty Co.*, 77 Fed., 288, 25 C. C. A., 267, 35 L. R. A., 728; *Dickerson v. Tining*, 84 Fed., 192, 28 C. C. A., 139; *Edison Phonograph Co. v. Kaufman* (C. C.), 105 Fed., 960; *Edison Phonograph Co. v. Pike* (C. C.), 116 Fed., 863; *Rupp et al. v. Elliott*, 131 Fed., 730, 65 C. C. A., 544; *Victor Talking Machine Co. v. The Fair*, 123 Fed., 428, 61 C. C. A., 58; *Bement v. National Harrow Co.*, 186 U. S., 70, 22 Sup. Ct., 747, 46 L. Ed., 1058.

"The patent grants an exclusive right to use, to make, and to sell. The patentee may grant, if he will, an unrestricted right to make and sell or use the device embodying his invention, or may grant only a restricted right in either the field of making, using or selling. To the extent that he restricts either one of these separable rights, the article is not released from the domain of the patent, and any one who violates the restrictions imposed by the patentee, with notice, is an infringer.

"This is the ground upon which the cases stand which upheld restrictions upon either use or sale of a patented article where infringement is alleged. But, when a patentee imposes such restrictions, they may likewise constitute a contract between the patentee and his direct vendee or licensee. In such case the patentee would have a double remedy—an action in tort for infringement or an action for the breach of the contract. The double remedy in such circumstances is noticed in *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*, 77 Fed., 288, 25 C. C. A., 267, 35 L. R. A., 728, and in *Victor Talking Machine Co. v. The Fair*, 123 Fed., 424, 61 C. C. A., 58. In *Bement v. National Harrow Co.*, 186 U. S., 70, 22 Sup. Ct., 747, 46 L. Ed.,

⁴⁷153 Fed., 24 (C. C. A., 6th C., 1907), 27-28.

1058, the action was one for breach of a contract by which the patentee had suffered his invention to be used on condition that the articles embodying it should not be sold below a certain price. In *National Phonograph Co. v. Schlegel*, 128 Fed., 733, 64 C. C. A., 594, the bill was not to restrain infringement, but to enjoin sales by a vendee who was a jobber and who by direct contract had purchased phonographs made under the patent, agreeing to sell only at a named price and only to retailers who signed an agreement regulating retail sales. Whether a remedy is sought for the violation of restrictions placed by a patentee, upon either the use or the sale of an article made under the patent, is in tort or in contract, the rules of the common law in respect of monopolies and restraints of trade have no application, because the very object of the patent law is to give to the patentee an exclusive monopoly in using, making, and selling, the device which embodies the invention, and this exclusive right he may exercise by contracts under which he reserves to himself so much of his exclusive right as he does not elect to sell or assign or license.

"It follows therefore, that contracts restraining subsequent sales or use of a patented article which would contravene the common-law rules against monopolies and restraints of trade, if made in respect of unpatented articles, are valid because of the monopoly granted by the patent. *Bement v. National Harrow Co.*, 186 U. S., 70, 91, 93, 22 Sup. Ct., 747, 46 L. Ed., 1058; *Edison Phonograph Co. v. Kaufman* (C. C.), 105 Fed., 960; *Edison Phonograph Co. v. Pike* (C. C.), 116 Fed., 863; *Victor Talking Machine Co. v. The Fair*, 123 Fed., 424, 61 C. C. A., 58. In the *Bement Case*, cited above, the action was at law to recover liquidated damages for the breach of a contract in respect of the price at which articles made under a patent should be sold. The Court, among other things said:

"The very object of these laws is monopoly, and the rule is, with very few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

The same rule was laid down with equal emphasis by the Supreme Court in its recent decision in *Henry v. A. B. Dick Co.* (not yet reported).

Even if the principle of the copyright and proprietary medicine cases above mentioned were applied to patented articles—in contradiction of the recent decision of the Supreme Court in *Henry v. A. B. Dick Co.* (not yet reported), it seems that at most it

could go no further than the modification apparently expressed above by the Court in *Cortelyou v. Johnson*.⁴⁸

Nothing in the recent case of *United States v. Standard Sanitary Manufacturing Company*⁴⁹ in any way disagrees with the second and third propositions of law above set forth. There the owner of a patent, covering a tool used in manufacturing non-patented articles, made agreements with all the manufacturers of such non-patented articles, by which he licensed such manufacturer to use the patented tool in the process of manufacturing such unpatented articles, and fixed the terms and prices under which such manufacturer should sell such unpatented articles to jobbers and wholesalers, and fixed the terms and prices under which the jobbers and wholesalers should sell the unpatented articles to the retailers. Such agreements were held to be in violation of the Sherman Act. The agreements, it will be noted, related primarily to the manufacture and sale of articles which in no way were covered by the patent in question. The decision in that case, therefore, has no bearing upon the second and third propositions of law above set forth.

The latest expression of the Supreme Court upon the questions discussed in this paper—until the very recent decision of the Supreme Court in *Henry v. A. B. Dick Co.* (not yet reported), announced March 11, 1912, while this article was in press, but which will be discussed in a subsequent article—is in *Continental Paper Bag Company v. Eastern Paper Bag Company*.⁵⁰ There the plaintiff sued to restrain the defendant from infringing letters patent. The defendant, among its defenses, answered that the patent had never been used by the plaintiff. Upon appeal from a decree ordering an injunction and an accounting the Supreme Court affirmed the decree. Justice McKenna, giving the opinion of the Court, stated that the defendant's argument, insofar as it related to the defense above mentioned, rested upon the promise that the policy of the patent laws was to promote the progress of useful arts, and that the non-use of an invention for the period of the patent "is not to promote the progress of the useful arts," and that, therefore, "equity should not give its aid to defeat the policy of the statute, but remit the derelict patentee to his legal remedy." Discussing this argument, Justice McKenna referred to the policy evidenced

⁴⁸ 145 Fed., 933.

⁴⁹ C. C. D., Maryland, 1911, not yet reported.

⁵⁰ *Paper Bag Patent Case*, 210 U. S., 405 (1908).

by the constitutional provision relating to inventions, and said that "all that has been deemed necessary for that purpose, through the experience of years, has been to provide for an exclusive right to inventors to make, use and vend their invention. * * * The language of complete monopoly has been employed." There has been no qualification, of the right, he continued, except the qualification in the Act of 1832 which required aliens to introduce into public use in the United States the invention or improvement within one year from the issuing of a patent thereon—"an expression which," to quote Justice McKenna, "we may now say, shows the extent of the right—a right so explicitly given and so complete that it would seem to need no further explanation than the word of the statute." Justice McKenna added that "the only effect of the patent is to restrain others from manufacturing and using that which he has invented," and in support of his view, that the essence of the patent right was complete "monopoly" and an "exclusive use," he quoted from *United States v. Bell Telephone Co.*,⁵¹ as follows:

"Counsel seem to argue that one who has made an invention and thereupon applies for a patent therefor occupies, as it were, the position of a quasi-trustee for the public; that he is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible. We dissent entirely from the thought thus urged. The inventor is one who has discovered something of value. It is his absolute property. He may withhold a knowledge of it from the public, and he may insist upon all the advantages and benefits which the statute promises to him who discloses to the public his invention."

Justice McKenna then continued:

"And the same relative rights of the patentee and the public were expressed in prior cases, and we cite them because there is something more than the repetition of the same thought by doing so. It shows that whenever this Court has had occasion to speak it has decided that an inventor receives from a patent the right to exclude others from its use for the time prescribed in the statute. 'And for his exclusive enjoyment of it during that time the public faith is forever pledged.' (Chief Justice Marshall in *Grant v. Raymond*, 6 Pet., 243, p. 242).

"And in *Bloomer v. McQuewan*, 14 How., 539, 549, Chief Justice Taney said: 'The franchise which the patent grants con-

⁵¹ 167 U. S., 224, 249.

sists altogether in the right to exclude everyone from making, using or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent.'"

To the same effect, Justice McKenna cited numerous other cases, including *Bement v. National Harrow Company*, and the language therein adopted from *Heaton-Peninsular Co. v. Eureka Specialty Co.*, which has been hereinbefore quoted. Justice McKenna concluded his argument as follows:

"As to the suggestion that competitors were excluded from the use of the new patent, we answer that exclusion may be said to have been the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive."⁵²

VI.

Summing up the matter, the first proposition of law above set forth seems well settled. The third proposition of law above set forth, upon the present state of the authorities, is also well established. The only modification seriously urged in respect to it would, at most, merely save from contributory infringement suits parties who furnish general articles of commerce to the users of patented articles. Whatever bearing this possible modification may have on the third proposition above mentioned, it appears, upon analysis, to throw little light on the relation of the Sherman Anti-Trust Act to the patent law. The second proposition of law above set forth, upon the present state of the authorities, is also well established; but in respect to this second proposition, and also the third proposition above mentioned, the contention has been advanced in some quarters that the Sherman Anti-Trust Act forbids the owner of a patent to agree with another to restrain his own use of the patent and his manufacture and sale of the patented article.⁵³

⁵² To the same effect see:

Henry v. A. B. Dick Co., U. S. Supreme Court, March 11, 1912 (not yet reported).

Fuller v. Berger, 120 Fed., 274 (C. C. A., 7th C., 1903).

Lewis Blind Stitch Machine Co. v. Premium Mfg. Co., 163 Fed., 950 (C. C. A., 8th C., 1908).

⁵³ See the bills in equity filed on behalf of the Government in *United States v. General Electric Co., and Others* (C. C. N. D., Ohio, 1911), and in *United States v. United Shoe Machinery Co. et al.* (C. C. D., Massachusetts, 1911).

This contention rests, at bottom, upon two assumptions: first, that the suppression of the use of a patent is against public policy; and second, that suppression of competition among the owners of different patents of the same general character is against public policy. Both these assumptions are disproved by the great weight of authority.⁵⁴

Under the Sherman Anti-Trust Act, it has repeatedly been held that any trader may cease doing business, but that he cannot agree with other traders that he and such other traders cease doing business to such a degree as to constitute restraint of trade.⁵⁵

The reason underlying this principle is briefly this: Cessation from business, pursuant to agreement, is unlawful when practised to such a degree as to constitute restraint of trade, because it tends to monopolize "part of the trade or commerce among the several states"—to wit, that "part of the trade or commerce" comprehended within the business which has ceased—and such monopolizing is forbidden by the Sherman Anti-Trust Act. Non-use of a patent, pursuant to agreement, as Judge Lurton so clearly has shown in the passages above quoted from *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*; *Henry v. A. B. Dick Company* (not yet reported), and *John D. Park & Sons Co. v. Hartman*, cannot *ipso facto* constitute a restraint of

⁵⁴ *Continental Paper Bag Co. v. Eastern Paper Bag Co.* (quoted *supra*).

Henry v. A. B. Dick Co., U. S. Supreme Court, March 11, 1912 (not yet reported).

Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co. (quoted *supra*).

Fuller v. Berger, 120 Fed., 274 (C. C. A., 7th C., 1903).

Rubber Tire Vehicle Co. v. Milwaukee Rubber Works Co. (quoted *supra*).

Lewis Blind Stitch Machine Co. v. Premium Manufacturing Co., 163 Fed., 950 (C. C. A., 8th C., 1908).

Goshen Rubber Works Co. v. Single Tube A. & B. Tire Co., 166 Fed., 431 (C. C. A., 7th C., 1908).

⁵⁵ *United States v. Trans-Missouri Freight Association*, 166 U. S., 290 (1897).

Addyston Pipe & Steel Co. v. United States, 175 U. S., 221 (1899).

United States v. Joint Traffic Association, 171 U. S., 505 (1898).

Northern Securities Company v. United States, 193 U. S., 197 (1904).

Cincinnati Packet Company v. Bay, 200 U. S., 179 (1906).

Standard Oil Company of New York v. United States, 221 U. S., 1 (1911).

United States v. American Tobacco Co., 221 U. S., 106 (1911).

trade. Non-use of a patent, whether pursuant to agreement or not, and regardless of the kind or number of patents affected, can at most tend only to monopolize the use of the patent and the manufacture and sale of the patented article; and such monopolizing is expressly authorized by the Constitution and the patent laws enacted thereunder. Everyone must concede that the non-use of any patent, or any number of patents, without any agreement, tends merely to monopolize the use of the patent and the manufacture and sale of the patented article, and is therefore lawful. How, then, is such non-use, pursuant to an agreement, any different from or more excessive than monopolizing the use of the patent and the manufacture and sale of the patented article? Why does such non-use, pursuant to agreement, exceed the immunity which the Constitution and the patent law grants to monopolizing or in any way incur the penalties of the Sherman Anti-Trust Act? How or why non-use of patents, pursuant to agreement, is more monopolizing than non-use without agreement has never been explained in any decided case or by any legal or economic authority. On the contrary, sound legal and economic authority, as well as common sense, hold that non-use of a patent, whether pursuant to agreement or not, does not exceed the immunity which the Constitution and the patent law grants to the monopolizing of the use of the patent and the manufacture and sale of the patented article. As Judge Baker tersely put it (*Rubber Tire Vehicle Co. v. Milwaukee Rubber Works Co.*):

"Over and above an absolute monopoly created by law, how can there be a further and unlawful monopoly in the same thing? * * * Is a greater injury or deprivation inflicted if plaintiff authorizes a combination or pool to do what plaintiff can do directly? To say yes means that substance is disregarded, that mere words confer upon the people some sort of a right or interest counter to the monopoly."⁵⁸

This proposition is confirmed by Chief Justice White's discussion of the fundamental principles involved in the decisions of the Supreme Court in *Standard Oil Company of New York v. United*

⁵⁸ Compare:

Bement v. National Harrow Co. (quoted *supra*).

Continental Paper Bag Co. v. Eastern Paper Bag Co. (quoted *supra*).

Henry v. A. B. Dick Co., U. S. Supreme Court (not yet reported).

Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co. (quoted *supra*).

States,⁵⁷ and *United States v. American Tobacco Co.*⁵⁸ In a brilliant historical passage in his opinion in the former case, Chief Justice White reviewed the course by which the term "restraint of trade" had come to be a generic term for every kind of monopolizing act, and summed up the matter as follows:

"Contracts or acts which it was considered, had a monopolistic tendency, especially those which were thought to unduly diminish competition and hence to enhance prices—in other words, to monopolize—came also in a generic sense to be spoken of and treated as they had been in England as restricting the due course of trade, and therefore as being in restraint of trade." (57)

"It resulted that treating such acts as we have said as amounting to monopoly, sometimes constitutional restrictions, again legislative enactments or judicial decisions, served to enforce and illustrate the purpose to prevent the occurrence of the evils recognized in the mother country as consequent upon monopoly, by providing against contracts or acts of individuals or combinations of individuals or corporations deemed to be conducive to such results." (57).

Referring to the language of the Sherman Anti-Trust Act the Chief Justice continued:

"The context manifests that the statute was drawn in the light of the existing practical conception of the law of restraint of trade, because it groups as within that class, not only contracts which were in restraint of trade in the subjective sense, but all contracts or acts which theoretically were attempts to monopolize, yet which in practice had come to be considered as in restraint of trade in a broad sense." (59).

"Undoubtedly, the words 'to monopolize' and 'monopolize' as used in the section reach every act bringing about the prohibited results. The ambiguity, if any, is involved in determining what is intended by monopolize. But this ambiguity is readily dispelled in the light of the previous history of the law of restraint of trade to which we have referred and the indication which it gives of the practical evolution by which monopoly and the acts which produce the same result as monopoly, that is, an undue restraint of the course of trade, all came to be spoken of as, and to be indeed synonymous with, restraint of trade. In other words, having by the first section forbidden all means of monopolizing trade, that is, unduly restraining it by means of every contract, combination, etc., the second section seeks, if possible, to make the prohibitions of the act all the more complete and perfect by embracing all attempts to reach the end prohibited by the first

⁵⁷ 221 U. S., 1 (1911).

⁵⁸ 221 U. S., 106 (1911).

section, that is, restraints of trade, by any attempt to monopolize, or monopolization thereof, even although the acts by which such results are attempted to be brought about or are brought about be not embraced within the general enumeration of the first section." (61).

The gravamen of the crime defined by the Sherman Anti-Trust Act is, therefore, monopolizing—that is, unduly excluding others from using or manufacturing or selling in competition with one's own use, manufacture and sale; or, conversely, unduly excluding one's self from using or manufacturing or selling in competition with another's use, manufacture or sale. All the old doctrine, developed in many of the cases antedating the *Standard Oil Company v. United States* and *United States v. American Tobacco Company*, to the effect that the Sherman Anti-Trust Act declared criminal certain acts which amounted to something less than or different from monopolizing, as thus defined, was swept away by these decisions. "Restraint of trade," and all the rest of the language in which the Sherman Anti-Trust Act defines the crime which it punishes, means nothing, then, except monopolizing, unduly excluding others from using or manufacturing or selling in competition with one's own use, manufacture or sale; or, conversely, unduly excluding one's self from using or manufacturing or selling in competition with another's use, manufacture or sale.

Article I, Section 8, Subdivision 8 of the Constitution provides that Congress shall have power "to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." The right conferred by this Constitutional provision and the statutes enacted in pursuance of it "consists"—to quote Chief Justice Taney, in the passage which Justice McKenna cited from *Bloom v. McQuewan* (14 How., 539, 549)—"altogether in the right to exclude everyone from making, using or vending the thing patented without the permission of the patentee." This constitutional guaranty to the patentee flatly contradicts the prohibition of the Sherman Act. There is no reconciling the two. They are mutually inconsistent. One must yield to the other. Between the constitutional guaranty, on the one hand, and the Act of Congress of July 2, 1890, known as the Sherman Act, on the other hand, there can be no question of precedence. It cannot be assumed that the Sherman Act intended

to interfere with rights established by the Constitution and granted by the patent law.⁵⁹

The constitutional guaranty must prevail. The owner of a patent may, in any measure whatsoever, exclude others from using his patent, and from manufacturing or selling the patented article. The owner of a patent may do all the acts comprehended in the three propositions of law above set forth; and even though such acts be monopolizing, and such as, without the immunity of a patent, would clearly constitute a violation of the Sherman Act, the Constitution and the patent laws shall be his protection.

Gilbert H. Montague.

New York City, 55 Liberty Street. March, 1912.

⁵⁹ *Bement v. National Harrow Company* (quoted *supra*).

Henry v. A. B. Dick Co., U. S. Supreme Court, March 11, 1912 (not yet reported), to be discussed in a subsequent article.

Rubber Tire Vehicle Co. v. Milwaukee Rubber Works Co. (quoted *supra*).

Indiana Manufacturing Co. v. J. I. Case Threshing Machine Co. (quoted *supra*).

John D. Parks & Sons Co. v. Hartman (quoted *supra*).